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THE
RELATIONS OF RAILROADS TO THE PUBLIC.
A STATEMENT
PREPARED BY
F. B. THURBER, ESQ., OF NEW YORK CITY,
IN REPLY TO
INQUIRIES SUBMITTED TO HIM BY THE CHIEF OF THE BUREAU
OF STATISTICS, WASHINGTON, D. C.



INFORMATION FURNISHED BY MR. F. B. THURBER, OF NEW YORK, IN REGARD TO DISCRIMINATIONS IN RAIL RATES AGAINST THAT CITY, THE LINE OF POLICY PURSUED BY THE NEW YORK TRUNK LINES, THE OPERATIONS OF THE WEST-BOUND APPORTIONMENT SCHEME OF NEW YORK, TERMINAL CHARGES, AND THE RAILROAD PROBLEM OF THE COUNTRY, WITH A STATEMENT IN REGARD TO THE INFLUENCE OF CAPITAL TOWARDS DETERMINING THE COURSE OF COMMERCE, IN REPLY TO INQUIRIES ADDRESSED TO HIM BY THE CHIEF OF THE BUREAU OF STATISTICS.

N. B.—The following inquiries were originally addressed to Mr. Thurber in May, 1878, and his reply was dated May 21, 1878. He has, however, revised the whole and returned it to this office under date of June 13, 1879.

INQUIRIES ADDRESSED TO AND ANSWERS FROM F. B. THURBER, OF NEW YORK.

Question 1. Do you regard the establishment and maintenance of lower rates between ports in Europe and points in the interior of the United States than the combined ocean rate from the foreign port to New York, and the railroad rate from New York to the interior point, as in the nature of an unjust discrimination; and, if so, what measures, in your opinion, should be adopted for preventing it?

Answer. I regard the establishment and maintenance of lower rates between ports in Europe and points in the interior of the United States than the combined ocean rate from the foreign port to New York and the rail rate from New York to the interior points as an unjust discrimination, for the reason that the two methods of transportation are entirely separate and distinct from each other, bulk having to be broken and the goods handled at the end of the ocean voyage in any event. There can be no more economy of transport by making a through rate in Liverpool to Chicago, via New York or any other port, than there is in making the ocean rate separately and allowing the railroad lines to make the rate from the seaboard to Chicago. This, of course, is under the supposition that in both cases the goods are transferred from the ship to the car in the same manner, whether on a through bill of lading or not. In 1877, from January until September, through freights from Liverpool to the West on fourth-class goods were carried at 12 shillings and sixpence net per ton, equal to 13½ cents per hundred pounds, to Chicago, and 14 to 15 shillings net, or 15½ to 16½ cents per hundred pounds, to Saint Louis; while at the same time ocean freight rates to New York alone from Liverpool were 12 shillings and sixpence and 10 per cent. primage for the same goods per ton; or, in other words, New York merchants were charged 10 per cent. more for the carriage of the same goods from Liverpool to New York than Chicago merchants were charged for taking the same goods (through New York) 1,000 miles further; the effect of this being to forcibly and abruptly take from the merchants of New York trade which naturally belonged to them and give it to the merchants of Chicago. I do not think that any common carrier has the right to thus abrogate or be a party to abrogating the natural advantages which a community may enjoy. Such practices unquestionably make investments uncertain, discourage legitimate business enterprise, and should be prohibited by law. Discrimination of this kind is a protection of foreign manufactures against home manufactures; for instance, the hardware manufacturers of Birmingham and cotton manufacturers of Manchester can lay down their products in our Western markets cheaper than the manufacturers of the Eastern States can. The former owe no allegiance to our government, pay no taxes, and are commercial "carpet-baggers"; the latter are American citizens, and are entitled to fair treatment. The above is an example of the constantly-recurring anomalies in commerce at the present time, resulting from the control of steam-power by large organizations of capital, and which must be regulated in the interest of the public unless we would build up class distinctions and perpetuate a moneyed aristocracy. I would prohibit such practices by State and, if necessary, by national laws, against charging

more for the carriage of freight for a less than for a greater distance, except where the principle of reduced cost entered into the question, and this is not the case in the instance above given. It must not be confounded with the *pro rata* principle in land transportation, because in this the principle of cost does enter largely into the question.

Question 2. Do you consider that the discriminations above mentioned have resulted from competition between ocean lines in connection with the New York Central, the Erie, the Pennsylvania, and the Baltimore and Ohio Railroads, or that they are the result of the efforts of those roads to meet rates made by the steamer lines in connection with the Grand Trunk Railroad, and its connecting lines from Montreal, Portland, and Boston?

Answer. I understand the above discrimination to have been the result of the efforts of the trunk lines to meet rates made by the steamship lines in connection with the Grand Trunk Railroad and its connecting lines from Montreal, Portland, and Boston.

Question 3. Is it not true that the average steamer rates which prevail between New York and Liverpool are less than those which prevail between Boston and Liverpool, or between Philadelphia and Liverpool, or Baltimore and Liverpool?

Answer. Average steamer rates between New York and Liverpool are generally lower than between other seaboard ports, the reason for this being that in many respects New York is a more desirable port; the principal reason being, perhaps, that it is more accessible, and freights both ways are more easily obtained.

Question 4. Referring to the results of the recent discrimination in rates as against New York and in favor of Boston, which prevailed during the year 1878, leading to a large diversion from New York to Boston, please to state, with as much particularity as you may be able, the principal commodities or classes of commodities thus diverted, stating whether they were of domestic or of foreign production; if of American production, in what State or States produced, and if of foreign production, of what countries they are the product. It is the object of this inquiry to ascertain as nearly as possible the practical effect of such discriminations against New York. You may elucidate the subject in any manner you may deem proper, if you do not think a specific answer to the inquiry will properly bring out the facts in the case.

Answer. There has generally been a small permanent discrimination in west-bound rates against New York and in favor of Boston, owing to the fact that the Grand Trunk is considered a less desirable route by which to ship goods, and consequently in order to get business it has to offer inducements in the way of a lower rate. When this inducement has been small it has principally affected the heavier and least valuable class of goods, but when rates are much less, as they have been several times (the last instance being in January, 1878), the difference has been so great that almost all classes of goods have been equally affected, and not only were goods shipped from New York to Boston and from thence to Chicago, by the way of the grand trunk line, *for less than half the New York rates*, but goods were shipped from New York to Boston and back again through New York over the Erie road to Chicago at rates far below those ruling from New York. As to whether the goods thus affected were mostly of foreign or domestic product, I should say perhaps of about equal amount, foreign goods of all varieties used in the West as well as goods manufactured in New York and all the Eastern States being affected. As you state in this question that the object is to ascertain as nearly as possible the practical effect of the recent discrimination against New York, I would add that the damage occasioned by these anomalies in our transportation system is not confined to the actual number of tons of freight carried out of Boston during the period when rates are less, but there is also a substantial injury done to the prestige of New York as a commercial center, and in the general shaking up and disturbance which they occasion in the settled channels of trade.

Question 5. In view of the fact that New York City is practically the trade center of a very large proportion of the manufacturing enterprises of the New England States, do you not consider that the commerce of New York from these sources is largely promoted by the low rail rates on Western productions over the New York Central Railroad and its connections to the towns of New England, and by the low rates for the transportation of the manufactured products of the New England factories to all points at the West and Southwest over the same roads?

Answer. I think that the business of New York is promoted by equitable rates from the West to the New England States and from the New England States to the West, as, unquestionably, New York shares to a greater or less extent in the prosperity of New England; but I do not think that this is any reason why New England should have a lower rate of carriage than New York, or even as low, because, laying aside the influence of distance on through business, the volume of business done at New York entitles her to lower rates of transportation than any other seaboard city. It is well known that the cost of transportation by rail decreases faster as the volume of business increases than the cost of doing any other business; or, in other words, a large business in transportation can be done cheaper in proportion than a large business in almost any other branch of commerce.

Question 6. Please to present such facts as may appear to you to be of value in order to indicate the nature and extent of the discriminations made in favor of jobbing merchants at interior points on shipments from New York, and explain how such discriminations operate with respect, first, to the interests of small purchasers in the interior; second, to the commercial interests of New York, and, third, to the interests of the transportation line.

Answer. It has been the practice for a number of years for all the principal railroad lines running from New York to the West to make special contracts with wholesale houses in the interior, at almost all principal points, at a rate far below their printed schedule of rates, which, in the absence of agreement, the public generally have to pay. The following are illustrations of the great difference thus made, and which is by many believed to be excessive:

(From report of committee on railroad transportation of the New York Chamber of Commerce, February 28, 1878.)

"An important discrimination, also, against the jobbing trade, particularly of this city, is in the form known as the *special contract system*, by which wholesale houses in the interior are given rates from fifty to seventy-five per cent. cheaper than the general public; and for illustration on this head we refer to annexed schedule, marked E."

SCHEDULE E.—SPECIAL CONTRACTS.—"The winter schedule rate from New York to Syracuse is 50 cents per 100 pounds for first-class goods, 40 cents for second-class, 34 cents for third-class, and 23 cents for fourth-class, and these rates the great mass of people have to pay; but a few favored wholesale dealers in Syracuse are given contracts by which all classes of goods are carried for 12 cents per hundred pounds, as against the 50, 40, 34, and 23 which the public generally have to pay, and the same is true of all the other jobbing centers of the State. The same principle also holds good in the treatment which the great mass of the people of the State of Illinois, and, indeed, all other Western States, are forced to submit to. The reduced rates of the pooled lines to Chicago are now 75 cents per hundred for first-class, 60 cents for second-class, 50 cents for third-class, and 40 cents for fourth-class (lately \$1, 80 cents, 60 cents, and 45 cents, respectively), while favored parties have been given contracts running through the year at 25 cents per hundred on all classes."

This form of discrimination affects,—

First. The small purchasers in the interior, virtually prohibiting them from buying in the most favorable markets, for they are discriminated against so largely that they are obliged to stay at home.

Second. The commercial interests of New York are unfavorably affected, for its merchants are thus obliged to sell their goods to the wholesale houses in the interior, who are thus favored in freights, at such prices as they may see fit to give. Practically the wholesale houses in the interior are subsidized so that they may break down the wholesale houses on the seaboard and monopolize the trade of the retail merchants of the interior.

Third. The interests of the transportation lines are unfavorably affected, for they are virtually concentrating the business in the hands of a few wholesale merchants, who pay them very low rates, instead of doing business with a large number of smaller merchants who would be glad to pay them a higher and reasonably remunerative rate, but who are prevented from buying their goods in the seaboard markets, as they used to do, by the prohibitory rates which are maintained. The passenger traffic of the roads is also greatly injured by this practice, as the larger the number of merchants who do business with the seaboard business centers, the larger would be the number of business men travelling, and I therefore believe it not only to be an unjust discrimination against the interest of the wholesale merchants on the seaboard, but also against that of the smaller purchasers in the interior, and of the roads themselves. While I do not think it feasible or right to require common carriers to transport a small quantity of goods as cheaply as they would a larger quantity, yet I believe with Mr. Fink, that a car-load should be the maximum quantity required to secure the lowest rate, and I believe further, that shippers of less than a car-load should only be charged the additional rate which it costs to transport goods in smaller quantities. It is unquestionably true that the great mass of the people have been charged a much higher proportionate rate than they should have been charged, in order that an unreasonably low rate could be given to a few favored individuals. I believe that the equitable adjustment of this matter is of greater importance than almost any other single defect in our transportation system, and it should receive the careful examination of experts in order to determine what additional rate it costs to receive, transfer, and deliver quantities less than a car-load as compared with a car-load, and then with this light an equitable adjustment should be made.

Question 7. In what manner and to what extent are the interests of trade injuriously affected by sudden and unadvertised changes of tariff rates? In your opinion, how long should any proposed change in a tariff sheet be advertised prior to making the changes?

Answer. Sudden and unadvertised changes in the rates for transportation, if frequent, are unquestionably injurious, as it makes commerce somewhat of a lottery, and it would probably be more beneficial to trade interests if changes in the rates of

transportation did not take place more frequently than twice per year. I have not fully considered the question of how long a notice ought to be given in any contemplated change in rates, but am under the impression that ten days would be a reasonable period for such notice. This would usually prevent loss to shippers on contracts which had been taken based on ruling rates, and would not be so long as to embarrass for any considerable period the traffic of the roads by withholding shipments in case of a contemplated decline or hurrying them forward in case of a prospective advance.

Question 8. In your opinion, what action, legislative or otherwise, is necessary in order to prevent any departure from published rates by any one of the various methods of cutting?

Answer. It seems to me probable that, in case uniform rates to all shippers under similar circumstances were once prescribed by law, carriers would naturally and easily fall into line and comply with the law. If, however, experience should prove that there were many ways of avoiding the law, legislative ingenuity ought to be able to meet these evasions, the same as it has in our internal-revenue laws and many other laws by which society is regulated.

Question 9. Can you formulate a general rule which, in your opinion, should limit discriminations in freight charges in so far as relates to quantity carried? Mr. Albert Fink has expressed the opinion that this discrimination should be limited to single car-load lots, beyond which limit an absolute uniformity of rates should be observed.

Answer. I think that the line as drawn by Colonel Fink, at the quantity of one car-load, is perhaps the first practicable step to be taken in equalizing charges for transportation; but, as stated in answer to question 6, Colonel Fink does not go far enough in this direction to do justice to the great mass of shippers who, unquestionably, are those that usually ship in less quantity than one car-load. The probable difference in the cost of transporting merchandise in quantities of a car-load and in less quantities should be ascertained as nearly as may be by examination of the question by experts, and this additional cost and no more should be charged to such shippers. The principle of "equality on the 'King's highway'" should be here applied as far as possible. The right of the citizen must here limit the operation of the law of wholesale and retail; the vote of the small shipper had as much to do with conferring the franchises under which railroads are operated as did that of the large shipper, and from this point of view he is entitled to as much consideration.

Question 10. Referring to the second proposition on page 6 of Report of Chamber of Commerce Committee on Railroad Transportation, please to state what general or special remedy was therein contemplated.

Answer. That touched upon in answer to question 1, namely, that, if necessary, legislation must be invoked, not only at New York, but at all the ports, to remedy this state of things.

Question 11. Do you regard the recent discrimination in rail rates in favor of Boston as a measure intended by the railroad managers to be inimical to the interests of New York City, or do you regard such discriminations as the result of a contest by New York roads for the purpose of forcing rival roads out of Boston to a conformity with the established New York rates?

Answer. The recent (1878) discrimination in rail rates in favor of Boston was unquestionably not intended to be, by the railroad managers, inimical to New York City, but they were the result of attempts by the pooled trunk lines to force the Grand Trunk Road into maintaining a higher schedule of rates than the managers of that road saw fit to maintain, or, looked at from a New York railroad manager's standpoint, it was occasioned by attempts to meet the competition of the Grand Trunk Road. This, however, is not in all respects a fair statement of the case, because the extreme low rates which ruled for a time were first made by the pooled lines as a punishment to the Grand Trunk Road for having carried at much higher rates, but which rates were somewhat lower than those established by the pooled lines.

Question 12. Please to present a statement showing the relative terminal charges at Boston, New York, Philadelphia, and Baltimore, with reference to certain specific commodities. By this is meant the terminal charges as they affect particular kinds of commodities in their passage through New York, first in the course of trade, and second, by direct transshipment. In this connection please to present two illustrations or sets of illustrations going to show the relative terminal expense at Boston, New York, Philadelphia, and Baltimore. First, on commodities imported from Europe and to be shipped directly to interior points; second, on commodities placed in warehouse at New York prior to shipment; third, on commodities which pass through the New York market.

Answer. This question is, perhaps, the most difficult of all those asked to answer intelligently, and it is almost impossible to answer it comprehensively, as it involves not only what is known as terminal charges, but the whole routine of commerce at the four principal seaboard cities, both in import and export business, and in order to give a correct idea, it would have to embrace all the principal items of merchandise. I have, however, consulted with a large number of prominent merchants in different

branches of trade, with the following general result: as regards ships, while the specific charges of pilotage, towage, wharfage, supplies, &c., vary in some degree at the different ports, there are corresponding advantages and disadvantages which about equalize each other. As regards the terminal charges on merchandise, New York has in the past been at a disadvantage as regards grain and other produce arriving from the West by rail and destined for export, and also on the heavier kinds of imported goods *en route* to the west, for the economical handling of which it was necessary to bring cars and ships together; but, as stated elsewhere, these have been and are being remedied. The foregoing applies more especially to the second division of the question, viz, where goods have direct transshipment from ship to car, or *vice versa*; but as regards those charges upon commodities "in their passage through New York in the regular course of trade," the question of merchants' profits is involved, and this is of far more importance on the great miscellaneous class of goods than the mere attendant expenses, such as cartage, storage, labor, &c., which do not differ materially in the different seaboard cities, and in the aggregate amount to an exceedingly small percentage upon the cost of valuable products. On this great miscellaneous class, which comprises a thousand and one items, New York possesses substantial advantages. Most of the large manufacturers, both foreign and domestic, maintain agencies here for the sale of their goods, which is thus done upon the least possible margin of profit; varieties are more extensive, affording the best possible selection, and here new and attractive styles are first shown. These advantages, with the aggregation of capital which has settled here, have resulted in attracting buyers to this market and holding in a much greater degree than could have been expected the trade of the nation, in the face of the persistent discriminations which have been made against New York by her railroad lines. This discrimination has, of course, resulted greatly to the detriment of her distributing merchants, who have had to relinquish a portion of their legitimate profits in order to make up for these discriminations and to offset the inducements offered by competing cities. In conclusion I would say, as in the answer to question 16, that there has been some misapprehension and too broad an application of the agitation by the citizens of New-York for improved terminal facilities, as it was designed principally to secure improved facilities for the handling of grain arriving by rail, and other heavy goods for which direct transshipments from ship to car and from car to ship were a necessity.

Question 13. Please to state generally those defects in the terminal facilities of New York City which injuriously affect it, in so far as relates to trade in which New York competes with Boston, Philadelphia, and Baltimore.

Answer. I know of no defects in the terminal facilities of New York, except those heretofore resulting from our inability, or more properly neglect, in bringing cars and ships together; this applies principally to the handling of grain arriving from the West by rail designed for immediate export, and to the heavier class of imported goods destined for consumption in the West upon which it is also necessary to make direct transfer from the ship to the car. We do not feel the first during a great part of the year, owing to the superior facilities enjoyed by New York in having the Erie Canal, the canal-boats bringing this staple being at once towed alongside ships by which it is to be sent abroad. And as regards imported goods destined for the West, the recent authorization of the use of the Belt Line of railroad which runs along almost the entire water front of the city has already enabled a beginning to be made in loading these varieties of goods directly from the ships upon the cars without cost of transfer, and the full utilization of these facilities will place New York upon an equality with all competing cities.

Question. 14. In your opinion, has not the rapid diffusion of commercial information by means of railway postal service and the telegraph, in connection with the possibility of rapid transportation afforded by railroads, rendered it necessary that there should be at every city on the seaboard an immediate contiguity of the railroad, the warehouse, and the sea-going vessels, and the establishment of such facilities in the way of mechanical appliances and business arrangements as will insure the lowest possible cost of transfer from one vehicle to another? In this connection will you please to state how far, in your opinion, the facilities furnished at New York fail to meet this requirement?

Answer. Unquestionably the rapid diffusion of commercial information tends greatly to equalize values in different commercial centers, and in connection with the possibility of rapid transportation prevents the realization of large profits to the distributor and greatly reduces prices to the consumer. In consequence of this it has become necessary to reduce to the minimum all charges upon commerce, and the most approved appliances and facilities are also necessary. As to the defects in the facilities furnished at New York, they have unquestionably been unduly magnified. In enumerating the defects in the New York railway system many persons have entirely overlooked the great natural advantages enjoyed by New York in her magnificent harbor and extensive stretch of water front, which, taken in connection with that great source of wealth, the Erie Canal, has sustained the commerce of New York under the discrimination of her railroads, the burden of bad municipal government, and the enterprising

competition of other seaboard cities. There has been a great cry that what New York needed was elevators; but so far as the agitation by the citizens of New York was concerned it was simply for elevators at the termini of the different railroads in connection with the Western system of grading grain. It may not be generally known that New York has more elevators than any other city in the Union, but they consist principally of stationary elevators at the various grain storage warehouses and floating elevators for the transfer of grain from canal-boats into sea-going vessels, this latter variety moving about the harbor from point to point by their own steam and constituting a most effective instrumentality in our terminal facilities. The New York Central Road has also one first-class elevator for receiving and storing the grain transported by that road, and another is in process of construction. With these and the system of grading grain, which has but just fairly come into general use, New York cannot be said to be deficient in terminal facilities, at least those for the handling of grain.

Question 15. What has been the general effect of the west-bound apportionment scheme from New York upon the commercial interests of that city, with special reference to those interests in which it competes with rival seaboard cities, and what, in your opinion, will probably be the effect of this apportionment scheme upon the future commercial interests of New York City?

Answer. I believe that the general effect of the apportionment scheme out of New York, commonly known as the 'pool,' upon the commercial interests of this city, with special reference to those interests with which it competes with rival cities, has been unfavorable; not that an apportionment scheme is bad in all its features, but the rates at first established were so high that circuitous routes could cut largely from the pool rates and still make money, notwithstanding their unfavorable location; second, owing to the number of lines in the apportionment scheme it involved the transfer of some freight from one line to another without the concurrence of shippers. This, in some cases, resulted in delay and inconvenience to the receiver of the goods, and savoring as it does somewhat of arbitrary control over matters which had heretofore been directed by shippers or receivers of goods, it was an element of dissatisfaction which dealers in rival cities did not fail to magnify and make the most of. (As an illustration see letter clipped from the York York "*Shipping List*.")

"RAILWAY MISMANAGEMENT.

"EDITORS SHIPPING AND COMMERCIAL LIST:

"GENTLEMEN: As you represent, as well as any New York journal I know of, the business men of New York, I desire to call your attention to a matter that is driving the trade away from your city faster than anything I ever heard of. It is the 'pooling' system of the trunk railroads out of your city. The Western buyer now has no choice of the way his goods shall come. The superintendent of the 'pool' directs and divides freight to suit himself. Now, if all railroad companies did their business with equal promptness and dispatch, and in a business-like manner, there would be no complaint. But they do not. Some lines will bring goods from New York to this point in four or five days, and settle any loss for damages promptly, while others will take as long as three weeks, and it is a hopeless case to attempt to collect a cent of damages from them. Some lines have pleasant, affable gentlemen for agents; others are represented by some blockhead of a relative of a high official, who leaves his business to a boy, and is hardly ever to be found in his office, or when found knows nothing of what he is hired to attend to. Now, to be forced to do business with such lines is an outrage. They were always forced to cut rates to get any business, and even then not get a fair proportion. We would rather pay more and do business with reliable lines. It is just the same with one of these freight lines as it is with a business house. A man would rather do business with a first-class reliable firm, and pay their price, than deal with one of those 'snide' concerns that is always playing sharp and selling inferior goods. I have always given the preference to the Merchants' Dispatch Line, and can safely calculate on getting goods in four days from New York. If we have any losses they settle them promptly. There are several other lines that do just as well—the Star Union for instance—but we started with that line, and as long as everything was satisfactory we made no change. Now we send an order by letter or telegraph to our merchant in New York to ship us so and so by Merchants' Dispatch. The merchants obey orders, but the Merchants' Dispatch gets more than their share of freight, according to the 'pool.' The superintendent of the 'pool' directs that my goods with others, be taken over to the Baltimore and Ohio, or Erie or some other road, and instead of getting my goods in four days I am out of them one, two, or three weeks. I have just received a lot of goods three weeks out, and damaged at that. I don't believe I will ever recover a cent of damages. Now this 'pooling' arrangement does not exist in Boston or Philadelphia, and we can order goods from either and designate the line we want them shipped by, and get them as ordered. We intend, therefore, to go to these places and buy our goods as far as possible. I sent orders for over \$5,000 worth of goods this week to Boston, rather than buy in New York where I have always bought my goods, rather than be subjected to the outrage that is now being

perpetrated by the railroad lines centering in your city. We shall avoid New York as much as possible until her merchants see fit to stand up and fight for their rights and that of their patrons. Why don't the lines 'pool' their passenger traffic the same way? Suppose a man was to go to the Erie Railroad and ask for a ticket to Indianapolis or Saint Louis, and be told they had disposed of their quota for that day, and he must go via the Baltimore and Ohio, or the Chesapeake and Ohio, or through Canada; it would not be long before people would give your city a wide berth. If the railroad lines want to combine and keep up freights, let them 'pool' their earnings, and give the shipper the privilege of sending his goods as he may choose. Whether the New York merchants know this or not I am not aware, but as it has been going on nearly a year, and they are apparently taking no steps to break it up, the only recourse a Western buyer has is to let New York severely alone. I bought over \$50,000 worth of goods in New York last year—a small amount—but there are more like me, and New York will get as little as possible this year.

"Very respectfully,

"SUBSCRIBER.

"INDIANAPOLIS, *March 29, 1878.*"

Had the rates of the pooled lines been fixed on a basis which would yield but 10 per cent. on the capital actually paid in by the stock and bond-holders, and all special contracts been abrogated, the apportionment scheme might have proved a substantial benefit, but there has been a strong feeling in the commercial community that it was an effort to abrogate by the power of a monopoly the ordinary laws of commerce, which laws, if left to work, would decree the failure and liquidation of these roads, the same as a merchant with an unduly inflated business would have to fail and liquidate. It is unquestionably true that production and commerce in this country is being taxed in the way of exorbitant rates for transportation to a far greater extent than the ordinary taxation for the support of government, and that while straining at the gnat of ordinary taxation we have swallowed the camel in the shape of taxation for transportation. This is illustrated by the revenues of the railroads of the State of New York, which exceed by more than twelve times that of the entire revenues of the State derived from taxation, and the New York Central Road alone has in ten years paid dividends upon the watered stock which was put into that road in the years 1867-'68; dividends upon the watered portion alone, which in ten years, with compound interest, amount to more than fifty-two millions of dollars. The Pacific railroads have during the last ten years also exacted from the public many millions of dollars over and above what would have been required to have paid liberal interest and dividends upon the actual cost of those roads. The report of the investigation into the management of the Credit Mobilier Construction Co., of the Union Pacific Road has shown that the directors of the Union Pacific Road presented themselves, as directors of the Credit Mobilier Construction Co., with \$94,650,287.24 in cash, stock, and bonds, of which they acknowledged \$43,929,328.24 were profits. It is believed by many that the \$27,236,000 received as the proceeds of bonds issued to them by the government would, if honestly expended, have been sufficient to construct the entire work; and yet the commerce of this country is being taxed, and probably will continue to be for all time, to pay dividends upon the entire mass of obligations thus issued. In view of such facts as these, any apportionment scheme which involves the charging of rates higher than would be necessary to pay a fair return upon capital necessary to honestly construct the roads of which the combination is composed, must prove detrimental to the interests not only of New York City but the whole country.

Question 16. Please to mention the particular branches of trade which have been to any considerable extent deflected from New York to other Atlantic seaports during the last five years, and state the opinion generally entertained among the leading merchants of New York as to the cause or causes which have led to such changes in the course of trade.

Answer. In export trade large quantities of business, principally grain, have been diverted from New York to Baltimore and Philadelphia during the winter season when the great natural advantages which New York enjoys are neutralized by canal navigation being closed, and it is at this time of the year that the distance allowance in favor of Baltimore and Philadelphia, together with their heretofore somewhat cheaper terminal charges on goods arriving by rail and destined for export, operate greatly to their advantage. That this distance allowance is unjust is proved by the opinion generally entertained by experts, that, owing to the volume of business done, it actually costs the railroads less to do New York business than it does either Philadelphia or Baltimore business, and this is virtually conceded by all the roads making uniform rates on import and export freight from and to foreign countries through all the ports. It is disproved also by giving to Boston equal and in some instances lower rates, notwithstanding her distance to principal Western cities is greater. The foregoing relates principally to export trade, but the discrimination against New York on her importing and distributing business is perhaps the most important and flagrant of the two. Goods

have been habitually carried on special contracts, to jobbing points in New York State and beyond, for a few favored wholesale merchants, at prices ranging from one-half to one-third those charged to the general public. This practice has had the effect to forcibly take from wholesale merchants on the seaboard and give it to wholesale merchants at interior jobbing points. This is notably true of the dry-goods trade, and all branches of trade have thus been more or less injured. But for the great advantages enjoyed by New York in having the Erie Canal a great part of the year to swell its export business, and its preponderance of capital, these effects would doubtless have been more serious than they have been.

Question 17. Have the railroads terminating at New York entered into any arrangement with ocean steamer lines designed to meet special advantages afforded at other Atlantic seaports?

Answer. It is generally understood that the railroads terminating at New York have agreed with the Baltimore and Philadelphia lines that rates from and to interior Western cities on export and import trade shall be uniform through all the ports, and that these roads accept their *pro rata* portion of the through rate. Rates from Liverpool to Chicago by way of Boston, at this time, April, 1878, are some two shillings per ton lower than through the other ports. This is probably attributable to the cutting of the railroad rate by the Grand Trunk Line.

Question 18. Are the steamer lines running out of New York to any extent purchasers of grain for the purpose of completing their cargoes to Europe; and, if so, what is the opinion entertained by the grain merchants of New York as to the effect of such purchases upon trade?

Answer. I am not aware and cannot ascertain that any of the regular steamer lines running out of New York are in the habit of purchasing grain for the purpose of completing their cargoes to Europe. Some time since this was done to some extent by the Anchor Line, but it gave such dissatisfaction to the merchants who were in the habit of shipping by this line that the practice was relinquished. It is manifest if such a practice were tolerated on the part of common carriers, that at times, when freight room was scarce and profits on shipments large, the temptation would be great for said carriers to monopolize the carrying capacity of their steamers and rule out the general public. The opinion entertained by merchants is that this practice is unfair to the commercial community and incompatible with the functions of a common carrier.

Question 19. What is the present number and capacity of grain elevators at New York, and where are those elevators located?

Answer. The number of stationary elevators at the port of New York is seventeen, with a storage capacity of 16,420,000 bushels; the number of floating elevators is thirty-four, with a transfer capacity per hour of 279,800 bushels. The location and other details in connection with these elevators, taken from the official list of the Produce Exchange, are herewith submitted.

Floating and stationary elevators at the port of New York.

STATIONARY.

Names of owners or managers.	Names of elevators.	Location.	Storage capacity, bushels.	Transfer capacity, per hour.
The Grain Warehousing Company, Atlantic Dock, Brooklyn, office 5 Moore street, New York, L. B. Shaw, president; R. H. Laimbeer, treasurer.	Stores Nos. 2 to 28 inclusive	Commercial Wharf, Atlantic Dock, Brooklyn.	6,000,000	25,000
	Stores Nos. 6 to 11 inclusive	Clinton Wharf, Atlantic Dock, Brooklyn.		
	Stores Nos. 70 to 92 inclusive	South Pier, Atlantic Dock, Brooklyn.		
Hazeltine & Co., 31 Pearl street	Columbia Stores	Foot Atlantic street, Brooklyn.	1,500,000	8,000
	Kelsey's Stores	Foot Irving street, Brooklyn.	1,000,000	8,000
Bartlett & Greene	Central	150 to 162 Furman street, Brooklyn.	500,000	5,000
J. P. & G. C. Robinson, office 14 Coenties Slip.	J. P. & G. C. Robinson's....	Erie Basin, Brooklyn..	2,800,000	8,000
New York Central and Hudson River Railroad Elevator, Whitney & Twombly, lessees, 43 Whitehall street	New York Central and Hudson River Railroad.	Foot Sixtieth street, North River, New York City.	1,500,000	60,000

Floating and stationary elevators at the port of New York—Continued.

STATIONARY.

Names of owners or managers.	Names of elevators.	Location.	Storage capacity, bushels.	Transfer capac- ity per hour.
F. Woodruff & McLean, office 103 Water street.	F. Woodruff & McLean's ...	Foot Joralemon street, Brooklyn.	1,000,000	6,000
United States Warehouse Company, office 6 Front street, Ira Ketchum vice-president; F. S. Mathews, secretary.	United States Warehouse Company.	Foot Degraw street, Brooklyn.	500,000	8,000
Francis E. Pinto, 37 Pearl street.	Francis E. Pinto's	Atlantic Dock, Brooklyn.	800,000	4,000
Lawrence's Stores, foot First street, East River, office 3 Stone street.	Lawrence's Stores	Foot First street, New York City.	300,000	3,000
Tripp, Rogers & Co., foot West Thirty-fourth street.	Tripp's	Foot West Thirty-fourth street, New York City.	300,000	4,000
W. H. Payne, foot East One hundred and twenty-ninth street.	Payne's	Foot East one hundred and twenty-ninth street, New York City.	90,000	2,500
E. M. Van Tassel, Pier 39 North River.	Van Tassel's	Foot Vestry street, New York City.	40,000	3,000
E. M. Van Tassel & Co., Provost and Twelfth streets, Jersey City.	E. M. Van Tassel & Co	Corner Provost and Twelfth streets, Jersey City.	50,000	1,000
Fellows & Beyer, foot Taylor street, Brooklyn, E. D.	Fellows & Byers's	Foot Taylor street, Brooklyn, E. D.	40,000	3,000

FLOATING.

Names of owners or managers.	Name of elevators.	Storage capacity, bushels.	Transfer capac- ity, per hour.
International Grain Elevating Association, office 31 Pearl street, New York, E. Annan, president.	Bolivia, Renovator, Egypt, each 5,000 bushels.	.....	15,000
	Continental, Eldridge, International, Manhattan, Metropolitan, Russia, R. H. Foss, and Scotia, each 4,000 bushels.	.....	32,000
	Malster, 3,500 bushels; Domestic, 1,800; Kings County and Croton, 1,500 bushels each.	.....	8,300
	Albany, Havre, Hudson, Liverpool, Oswego, each 5,000 bushels.	.....	25,000
The New York Floating Elevator Company, George D. Puffer, president, office 47 Pearl street.	New York (2 legs), 8,000 bushels; Transporter and London, 4,000 each.	.....	16,000
The Floating Elevator Company, E. G. Burgess, president, office 35 Pearl street.	Telegraph and Excelsior, each 3,000 bushels.	.....	6,000
International Grain Elevating Association, office No. 1 Moore street, George E. Nichols, president.	.....	.....	3,000
The Corn Exchange Elevator Company, office 38 Pearl street, R. H. Vaughan, president.	H. F. Hebbard .....	.....	1,500
Clark & Allen, foot East Twenty-eighth street.	Baldwin and Columbia, each 4,000 bushels.	.....	8,000
Hazeltine & Co., 31 Pearl street	Enterprise .....	.....	3,500
Charles E. Huberer, foot Amity street, Brooklyn.	Active .....	.....	2,000
David Jones, No. 619 Sixth street	Union and Hillyer, each 3,000 bushels.	.....	6,000
W. D. Mangam's Son, office 92 Broad street; station, Pier 6, North River.	Manhattan .....	.....	5,000
Marsh, White & Co., foot North Fifth street, Brooklyn, E. D.	.....	.....	.....
Total (17 stationary and 34 floating elevators)		16,420,000	279,800

Question 20. Within what area in this country is the grain trade of New York confined? This inquiry relates to the territory supplied with grain and flour from the New York market.

Answer. The domestic area supplied with flour and grain from the New York market is very limited, being confined to the environs of New York and a few points along our seacoast. Formerly almost the whole of New England was supplied from New York, but the distribution of flour and grain by rail during the past few years has attained large proportions, and now the whole interior, as well as most of the small seaports, are supplied by direct shipments from the West by rail. Of the enormous quantity of cereals and their products which find a market in New York by far the larger proportion are destined for export, but of course, with a population exceeding two millions within the circle of a few miles, the local consumption is also considerable. New York, however, depends principally upon her export trade, for which, owing to her being the principal seaport of the country, and having large numbers of steam and sail lines to all parts of the world, she enjoys superior facilities.

Question 21. Please to mention the advantages which, in your opinion, have resulted from the formation of the New York railroad apportionment scheme—

1st. In preventing discriminations as against the interests of interior points, like Buffalo, Pittsburgh, Cleveland, Detroit, Toledo, and Cincinnati, and in favor of the Atlantic sea ports, and generally discrimination against all that class of traffic commonly known as local or non-competitive.

2d. Advantages which may have resulted from the stability which has thus been secured in rates.

3d. Advantages from the elimination of the uncertainty in the minds of merchants generally as to the comparative rates charged them and other competitors.

Answer. The advantages which have resulted from the formation of the railroad apportionment are the abrogation, to some extent, of special contracts to wholesale merchants in Western cities, although there are indications that this rule has been broken in some instances.

There is, unquestionably, an advantage in the stability of rates, provided they be reasonable; but the high rates charged by the pooled lines in a great measure defeat this object. One serious break occurred owing to the competition of the Grand Trunk Road. Roundabout lines were able to divert considerable traffic, and various evasions have taken place, as there always will when excessive tariffs are sought to be enforced. [NOTE.—As one of the anomalies in railroad management I may here mention that east-bound rates, with a full traffic, are usually much less than west-bound rates (at the present time, May, 1878, nearly 100 per cent. less); and this notwithstanding about two-thirds of the cars are hauled back to the West empty. A usual law of business is that the smaller the volume of business the stronger is the competition to secure a share of it and the more slender are the profits; in this instance it is precisely the reverse.] Local or non competitive rates have not been affected by the apportionment scheme, and here the great discrimination and abuse of special contracts remain in full operation. The advantages resulting from eliminating the uncertainties in the minds of merchants generally as to the comparative rates charged them and other competitors have not as yet been realized although with honest management these may, in time be secured.

Question 22. Please to present your views as to the injustice of the special contracts above mentioned by a description of those demoralizing practices in the course of the contests between the solicitors of freights in which the merchants have been led to practice deceptions upon the agents of the railroad companies, and in which the agents of the companies have been led to practice deceptions upon the merchants.

Answer. In an ethical view these special contracts are productive of uncertainty, distrust, dissatisfaction, and general demoralization. They are necessarily unfair, and therefore, to a great extent, secret and confidential. Merchants who would prefer to have a uniform rate, which would give them no advantages over their neighbors or their neighbors over them, are compelled, so long as this mode of business is tolerated, to avail themselves of these special advantages, or else they are soon distanced in the race by less scrupulous competitors. Irregularities in rates are a premium upon deception in classification, and this together with other evasions are more or less practiced both with and without the connivance of the agents of the companies.

Question 23. Please to explain in what manner and to what extent the practice of making special contracts to favored shippers is in any manner influenced or controlled by the New York apportionment scheme as to west-bound traffic, referring, in this connection, both to shipments east of Buffalo, Dunkirk, Pittsburgh, Wheeling, and Parkersburg, and to shipments west of these points.

Answer. The apportionment scheme has practically no effect upon special contracts made to points east of Buffalo, Dunkirk, Pittsburgh, Wheeling, and Parkersburg. As regards principal points west of these named it theoretically abolishes special contracts, and if conscientiously lived up to it would be a redeeming feature of the whole

plan; otherwise it is the most unequal and onerous form of class taxation of which we have any record.

Question 24. Please to describe the Belt Line, stating the rules and regulations governing its use by day and night.

Answer. The Belt Line of railroad in New York, more properly known as the Central Park, North and East River Railroad Company, is a horse railroad running along West and South streets, comprising the water front of the business part of the city; thence along various streets and avenues on the east side of the city to Fifty-ninth street, where it crosses the city, skirting the lower boundary of Central Park, to Tenth avenue, and down that avenue again until it again strikes the water front on the west side at West street. A portion of its route in West street above Canal has heretofore been occupied by the track of the Hudson River Railroad, leading to the freight depot at St. John's Park on the west side of the city, and this track has been jointly used by the Belt Road and the Hudson River Railroad under a working arrangement for that purpose. Recently, however, at the solicitation of the merchants, our municipal authorities have granted permission to use the track of the Belt Railroad for the movement of freight-cars during certain hours of the night, and has given power to lay switches to the various wharves and warehouses along its route. It is believed that this is an important step toward improving the terminal facilities of New York, and bringing the cars and ships together, as is done in the other principal seaboard cities. It will, to a considerable extent, remove the expense which New York roads have urged with some force, that New York did not extend to them the same facilities which other seaboard cities extended to their roads; and it is to be hoped that it is only the forerunner of a more complete and comprehensive system of terminal facilities worthy of the principal seaport of a great nation.

Question 25. You are requested to add to the foregoing inquiries any statistical or other facts which you may deem of interest, either with respect to the commercial interests of New York or with reference to the movements of or the conditions affecting the internal commerce of the country.

Answer. In accordance with the request to add any facts with reference to the conditions affecting the internal commerce of the country, I desire to call attention to the facts set forth in one of the reports of the committee on railroad transportation of the American Cheap Transportation Association, from which I have made the following extracts. The array of defects in the management of our modern highways there set forth is quite remarkable, and the remedies proposed seem eminently conservative and just. Beginning with abuses in construction, it says:

"The reckless and unprincipled manner in which some railroads are built would astonish many persons, and we give the following as a sample: A charter is obtained and a few men get together without a dollar in ready money, form a company, issue construction bonds 'secured by mortgage upon the road,' and a committee of directors is sent to New York to 'place' the bonds. The committee enter into negotiations with some prominent banker to undertake the placing of the bonds, he to get what he can for them and allow the road 70 cents on the dollar, the road to pay the advertising bills. If the committee are honest the road ultimately gets 70 cents less the advertising bills, but many committees are not honest, and as soon as they have found a banker to undertake the job at 70 they communicate with the board of directors at home, stating that the best they can do is 60, and ask for authority to place the bonds at that figure. Having their confederates at home in this inside ring, the authority is easily obtained, and by arrangement with the banker he settles with the road at 60, and pays 10 per cent. over to this syndicate for their personal use and benefit. If there is a happy combination of circumstances, such as absence of financial disturbances, suspension of the banker, &c., and if they get all the counties, cities, and towns along their route to issue bonds liberally, the road may be finally built and furnished with rolling stock; then our worthy friends of the board of management divide the stock between themselves without equivalent, fix the rates for freight and passengers high enough to pay interest on the face value of the bonds and par value of the stock, and then, after voting themselves fat salaries, proceed to foist the stock off upon an unsuspecting public. As soon as the members of the ring manage to sell most of their stock they go to work and organize a 'Fast Freight Line,' or other Credit Mobilier institution, to which they give a contract which soon impoverishes the road and enriches them, so that when the road passes into bankruptcy they are enabled to buy it in, issue new stock, and repeat their little financial arrangement over again. In sketching the completion of this road we forgot to say that there was a 'construction' ring; this ring had their slice from every contract made, and not a mile was graded or tie laid, not a rail or engine or car purchased, not a depot erected or nail driven, but a percentage went into the pocket of the ring.

"As for the banker, by a free use of the press (who lend the weight of editorial columns to the project), he succeeds in 'placing' the bonds at 90, 95, or par, among the widows, orphans, and other unsophisticated persons of small means who have confidence in the banker and editor that recommend the conversion of government

bonds into the 'equally reliable and better paying railroad securities.' Everything goes on smoothly until some morning the railroad stops paying interest upon its bonds, passes into bankruptcy, sells for little or nothing, and that is the end of it, so far as the banker, the editor, and the person of small means are concerned. In the meantime the managers of the road find it necessary to buy the usual number of legislators, and retain all the best legal talent along the line of the road, in order 'to protect their rights from the encroachments of the people,' who have languished under extortionate freight charges, and who have been groping blindly about to find a way to remedy the evils which, notwithstanding that they labor early and late, and raise crops which are the admiration of the world, are making them poorer each year. Now, while we are far from desiring an indiscriminate war upon railways, we claim that public opinion must be awakened to these abuses, and that they must be eliminated from our present railway system. The people of this country are beginning to find that these defects in our transportation system are the 'Old Man of the Sea' upon the shoulders of the commerce of the country, and when they realize that the watered stocks and other swindles in this line are a greater burden than our entire national debt, we may be sure that they will in some way work out a remedy.

"The foregoing relates principally to the defects in the manner of construction, but they are none the less prominent in the operation and management of railways. Probably the greatest abuse in the present system of railway management is the practice commonly known as 'stock watering,' or the capitalization of surplus earnings, the most usual form of which is accomplished by charging high rates of freight and accumulating a large surplus fund, putting it into improvements and then issuing stock to represent the value of these improvements; or, in other words, exacting money from the public, and then forever after making the public pay interest on the money so exacted. It is argued by the apologists for these practices that it is current among manufacturing and other corporations, but they ignore these essential points: that a railroad is endowed with the right of eminent domain, the right to take private property *because it is for public use*, and railroads therefore owe some duties to the public which manufacturing companies do not. Again, manufacturing corporations are not like railroads, natural monopolies by the very nature of their construction, and no one is obliged to patronize them, as is the case with the railroads. We cannot better illustrate the practical operation of this abuse than by comparing the management of the 'Baltimore and Ohio' and the 'New York Central and Hudson River' railroads. Both of these are trunk lines, connecting the interior with the seaboard and operating nearly the same extent of road. The policy of the former company has been to invest its surplus earnings in the improvement of its road, and carrying forward their cost upon their books as a surplus, while that of the latter company has been to make the same investment of earnings, but to issue stock representing the same.

"This plan appears to have been initiated with the formation of the New York Central Railroad in 1853, by the consolidation of the ten separate corporations owning the route between the Hudson River and the Lakes. The combined amount of share capital and convertible bonds of these separate organizations was then \$23,235,000, but a considerable portion of the share capital had not been paid in. The equalizing process of the consolidation was that the Schenectady and Troy Company—that being the least productive of all—should come in at par, while the holders of stock or convertible bonds of the other roads received a premium in consolidated 6 per cent. debt certificates ranging from 17 to 55 per cent., making an issue of these certificates amounting to \$8,894,500, or over 30 per cent. on the true share capital of the company. From this time down to 1867 there had been no material change in the total of stock and debt of the New York Central Company other than what could be nearly accounted for by actual value received, and its capital account was then represented by \$28,537,000 of stock and \$12,069,820 of bonds, a total (including the 'water' of 1853) of \$40,606,820. The Hudson River Railroad Company at the same time had a share capital of \$7,000,000 and a bonded debt of \$7,227,000; total, \$14,227,000; making these two companies, which in 1860 were consolidated, stand in 1867 as follows: Stock, \$35,537,000, and bonds, \$19,296,820, or a total capital account of \$54,833,820.

"During 1867 the Hudson River Company presented its stockholders with \$3,500,000 stock, or a dividend of 50 per cent.; and again, at the time of consolidation, another one of 85 per cent. on the then outstanding stock of \$16,000,000, making an issue of \$13,625,000. The New York Central Company had, in 1868, presented its stockholders with \$23,036,000, or 80 per cent., followed by one of 27 per cent., \$7,775,000, at the time of consolidation. Thus in the space of two years the now New York Central and Hudson River Railroad Company added to its capital the sum of \$47,936,000, created out of nothing but the will of its directors and the mixture of paper and printers' ink. From 1870 to 1872 the bonded debt was increased each year by from one to two millions of dollars, since which it has been increased some \$20,000,000 for purposes of construction. Who shall say if any, or how much, of this has been additional 'water' to make up the necessary amount of \$7,200,000 for annual dividends? It will be seen by the

foregoing that the known fictitious capital of this company, including the issue of 1853, is some \$10,000,000 greater than the real capital which had been invested down to 1869.

"In the one case the liabilities represent about \$40,000 per mile of road, and in the other about \$130,000. Both pay about the same dividends, and it certainly requires no mathematical ability to comprehend the fact that, in order to do this, the latter road must on the same traffic charge the public a much higher rate of transportation. The roads mentioned have been selected only because they are conspicuous examples, and, to our shame be it said, that aside from the Baltimore and Ohio there is not another trunk line of railroad in the United States to hold up as an example of honest railroad management. The entire railroad system of the United States is tainted with the same practice, and it is estimated that about one-half of the stock of the entire body of railways in this country has been thus manufactured. There are other abuses connected with the management of railroads, such as fast-freight lines run by outside companies, the stock of which pays enormously, and is owned by their directors, superintendents, and other employes. These fast-freight lines now do much of the business of the country, and although within the past few years many of them have, in deference to public opinion, been changed from the non-co-operative to the co-operative system, yet those of the old style which remain are gradually sapping the life of the railroads over which they run. They should be driven out in every case, and their business should be done exclusively by the railroads themselves. The palace and sleeping-car and express companies are another excrescence upon the railroad system of the country; and from the fact that they now own from ten to twenty million dollars' worth of cars, bought mostly from profits, they should be bought out by the railroad companies, so that the profits would go to swell their general revenues. Many railroad managers, superintendents, and other officers, are interested in coal mines, saw-mills, farms, and manufacturing establishments, and give themselves lower rates when other people are paying higher rates for the same accommodation. These gentlemen and the master mechanics are frequently interested in patent boxes, patent lubricators, patent ventilators, patent brakes, and patent fastenings, and are thereby induced to use their own when they could get cheaper and better ones with advantage to the roads and their stockholders. Their road-masters are interested in patent frogs and crossings, patent joints, and patent track-tools. General freight agents are interested in equipment companies and fast freight lines, and make money by giving rebates, drawbacks, and special rates, or by furnishing cars to shippers who will pay a bonus and denying them to such who will not, or do not, know the ropes. Passenger agents share the spoils of the 'scalpers.' Purchasing agents exact and pocket commissions on all the supplies and materials purchased and used in the various departments. Paymasters have been known to levy a tax upon all orders accepted and paid by them.

"And, in addition to all this, lavish and extravagant expenditure by the managers has been the rule rather than the exception. The money paid by the public for transportation, instead of being carefully husbanded and applied to the payment of the proper dividends to stockholders, has been used to influence legislation, and much of the corruption among men in public life may be traced directly to this source. The history of the Credit Mobilier is yet fresh in our minds, and in the report of a committee appointed by the legislature of the State of New York, in 1872, to investigate the affairs of the Erie Railroad, we find the following: 'It is further in evidence that it has been the custom of the managers of the Erie Railway, from year to year in the past, to spend large sums to control elections and to influence legislation. In the year 1868 more than \$1,000,000 was disbursed from the treasury for 'extra and legal services.' For interesting items see Mr. Watson's testimony, pages 336 and 337.

"Mr. Gould, when last on the stand and examined in relation to various vouchers shown him, admitted the payment, during the three years prior to 1872, of large sums to Barber, Tweed, and others, and to influence legislation or elections; these amounts were charged in the 'India-rubber account.' The memory of this witness was very defective as to details, and he could only remember large transactions; but could distinctly recall that he had been in the habit of sending money into the numerous districts all over the State, either to control nominations or elections for senators and members of assembly. Considered that, as a rule, such investments paid better than to wait till the men got to Albany, and added the significant remark when asked a question, that it would be as impossible to specify the numerous instances, as it would to recall to mind the numerous freight cars sent over the Erie road from day to day. (See testimony, p. 556.)

"It is not reasonable to suppose that the Erie Railway has been alone in the corrupt use of money for the purposes named; but the sudden revolution in the direction of this company has laid bare a chapter in the secret history of railroad management such as has not been permitted before. It exposes the reckless and prodigal use of money, wrung from the people to purchase the election of the people's representatives, and to bribe them when in office. According to Mr. Gould, his operations extended into four dif-

ferent States. It was his custom to contribute money to influence both nominations and elections.'

"The foregoing will serve to indicate the defects and abuses of our present system of railway management, although those we have enumerated are by no means all of them. We may now, however, properly proceed to consider the remedies.

"This opens up a wide range of discussion, but we propose to confine ourselves to those remedies which experience has demonstrated to be practicable. State regulation of railways by making laws which fix rates is, as a whole, impracticable; the moment you attempt to regulate the details of railway management by specific enactments, that moment you fill the statute-books with a mass of laws which benefit only the members of the legal profession.

"There are, however, certain general laws which work well in practice, and which every State should enact for the regulation of railroads which are exclusively within its borders.

"Under this head we may enumerate the following:

"1. A law providing a board of railway commissioners, with powers similar to those possessed by the railway commissioners of Massachusetts.

"2. A law to prevent stock inflations similar to the one now in operation in Massachusetts.

"3. A law providing for the publication at every point of shipment of rates and fares, embracing all particulars regarding distance, classifications, and rates, which should be the same to all persons under similar conditions, and prohibiting the increase of such rates above the limit named in the publication without giving the public reasonable notice.

"4. A law prohibiting officers or directors of railways from either directly or indirectly owning or becoming interested in any non-co-operative fast-freight line or car company, or from being interested in any manner in the furnishing of supplies to any company with which they may have official connection.

"5. A law prohibiting railway companies from acquiring or holding more real estate than is necessary for the operation of their roads, and prohibiting railroad companies or officers of companies from engaging in mining or any business other than that of transportation.

"6. A law making it a penal offense for any public official to accept or use the free pass of any railway company, and prohibiting railway companies from granting such passes to any but regular employes of such railways.

"7. A law providing that all common carriers shall receipt for *quantity*, whether it be of grain or other commodities, and to deliver the same at its destination.

"8. A law prohibiting representatives of the people who belong to the legal profession from being retained on either side in cases where the public interest is involved.

"Of these all but the first should also be national laws, and in addition Congress should also provide a department or bureau of commerce, for the purpose of obtaining and preserving statistics relating to our internal commerce, to the end that intelligent conclusions may be arrived at in matters pertaining to this great interest. There is no one thing that strikes the student of the transportation problem so forcibly as the amazing carelessness and neglect that has left a commerce so great without the ordinary facilities for obtaining even a correct idea of its extent. The total of the exports and imports constituting the foreign commerce of the United States for the year 1873 were under five hundred millions of dollars, while it is estimated that the value of products transported on all the railways of the United States for the same period was upward of ten thousand millions. The commerce of the Ohio River was estimated at sixteen hundred millions ten years ago, and at this rate the entire domestic commerce of the country would at this time probably not be less than fifteen thousand millions of dollars."

That such an enormous commerce as this is worth attention, and that the abuses enumerated require regulation in the interest of the public, no one can deny. That the various States possess the power to regulate the roads exclusively within their respective borders, and that Congress also has the power over inter-State corporations, is generally conceded. These powers were specifically defined by the United States Senate Committee on Transportation Routes as follows:

"First. That the powers of Congress whatever they may be, are derived directly from the people of the several States, and not from the States themselves.

"Second. That every important word in the clauses which confer the 'power to regulate commerce among the several States,' and to 'make all laws which shall be necessary for carrying it into execution,' has received legislative, executive, and judicial construction, and under such construction the power of Congress to regulate inter-State transportation by railroads, and to aid and facilitate commerce, is clearly established.

"Third. That in the exercise of this power Congress is authorized, under the grant of auxiliary power, to employ such means as are appropriate and plainly adapted to their execution.

"Fourth. That in the selection of means by which inter-State commerce shall be regulated, Congress may—

"1. Prescribe the rules by which the instruments, vehicles, and agents engaged in transporting commodities from one State into or through another shall be governed, whether such transportation is by land or water.

"2. That it may appropriate money for the construction of railways or canals, when the same shall be necessary for the regulation of commerce.

"3. That it may incorporate a company with authority to construct them.

"4. That it may exercise the right of eminent domain within a State in order to provide for the construction of such railways and canals; or,

"5. It may, in the exercise of the right of eminent domain, take for the public use, paying just compensation therefor, any existing railway or canal owned by private persons or corporations."

And these opinions have since been substantially confirmed by the decisions of the United States Supreme Court in the "granger cases." In view of these broad principles of equity, so authoritatively defined, it is, perhaps, not too much to hope for a gradual elimination of the abuses in our transportation system which have so long been a burden upon the industries of the people.

Statement prepared by Mr. Thurber, in reply to an inquiry touching the influence of capital upon the course of trade, and the relative power of capital and of the economies of transportation upon prices and upon the course of trade.

SIR: In answer to your supplementary question in regard to "the influence of capital upon the course of trade," and in which you request an expression of my views upon "the persistent power of the capital of New York City toward maintaining her commercial supremacy," I would say that it is manifestly impossible to condense within a few pages a satisfactory answer to a question which opens up more or less directly a wide range of politico-economic questions, but I may summarize them as follows: First, while capital undoubtedly does exercise a considerable influence as hereinafter shown, it is entirely subordinate and secondary to other essential conditions. Great commercial cities are dependent upon geographical position, upon climate, upon harbors, upon accessibility to the sources of supply of the products which make commerce, and in later years, perhaps more than all, are dependent upon transportation facilities which are most potent in attracting or repelling commerce. Of course capital has much to do with providing transportation facilities; and capital controlling the power of steam has done much to change the channels of trade which half or even a quarter of a century since were thought to be fixed and immovable. It is in this direction, perhaps, that the power of capital in controlling trade is most noticeable. English capital invested in steamships has reached out to the four quarters of the globe, attracting the commerce of the world to English markets. In this country the capital of the seaboard States, and to a considerable extent that of Europe, invested in railroads, has carried the productions and supplies of the great West over mountains and rivers along our parallels of latitude, when it would seem by all the natural laws of trade they would have sought the seaboard by means of the great rivers which penetrate the country longitudinally; and capital embodied in the labor-saving, wealth-creating, wonderful steam-engine has revolutionized the entire commercial, political, and social organization of the world. But this power has become so widely diffused, and is so generally used by all the great commercial cities, that it may be said the greater capital which New York controls does not, in the way of transportation facilities, give her any advantage. Indeed, as regards railroads, she may be said to be at a disadvantage, for her railroads are controlled by persons who selfishly (and I believe shortsightedly) operate them without regard to the commercial interests of New York, and thus abrogate, to a considerable extent, the advantage which New York has long enjoyed of having during seven months of the year water transportation which has, probably more than anything else, contributed to her commercial supremacy. There can probably be no more striking example of the power of capital invested in transportation than what has been accomplished by the few millions which the people of the State of New York wisely invested in the Erie Canal. But I have perhaps said enough upon the power of capital invested in transportation facilities controlling trade, and will now proceed to consider how far the influence of capital controls trade at certain centers and upon certain lines by *capitalizing commodities in movement*. In your communication you say: "I have seen it stated that the capacity of capitalizing commodities in movement by drawing against a fixed time in transit and delivery, upon the basis of the value of the commodity, exercises a stronger influence over prices and over the course of trade than does the economy of transportation." So far as the influence over prices is concerned, this may be correct. If there be not sufficient capital to move the commodities produced, they naturally decline in value, or, in other words, more would have to be given for a dollar than if the supply of capital was in larger proportion to the supply

of commodities to be moved. This truth is doubtless at the root of the popular demand in many parts of the country for more currency, but when we consider how infinitesimal is the proportion of the exchanges effected by the gold, silver, and paper currency of the country as compared with checks and bills of exchange, the importance of this issue sinks out of sight, and I cannot but conclude that it has assumed undue importance among the public questions of the day. How large the exchanges effected by other mediums than the paper and metallic money of the country it is impossible to say or even to estimate, but we may catch a glimpse of its immensity in the transactions of the New York Clearing House (which, as is well known, is a contrivance to simplify the dealings of New York banks with each other), and which were during the year of 1877 \$24,663,240,003, nearly all of which was in the form of checks and drafts, and it is not perhaps too much to say that all the currency in the United States could not have effected these exchanges which were so quietly and easily done by these bits of paper. The idea has gained a wide circulation that bank capital is employed in grinding the face of the poor and cheating the producer out of the proceeds of his labor, but I think a careful examination will show that the efforts of railroads to earn interest and dividends upon their watered securities by charging exorbitant rates of freight is a greater burden upon all classes of citizens than the interest paid by borrowers upon the capital borrowed. In the latter case, at least, the borrower pays only upon what he receives, and he has the option of whether he will borrow or not; in the former, the public are obliged to use the accommodation furnished by the railroads and to pay the amount demanded for the service.

I cannot better illustrate the services performed by bank capital than by quoting the words of Professor Sumner, who says that "banking capital renders very important services in that it throws the burden of waiting between producer and consumer on the idle capital of the country and releases the capital engaged in production so that it can be at once re-employed. Modern commerce cannot be carried on without banking facilities; they are part of the modern system. The economy is obvious and enormous, banking capital making commerce move many times more rapidly than it could without banks."

I might pursue this branch of the subject into *commercial credits*, which still further increase the facilities of exchange. They are of course founded on capital, but depend largely on other considerations, and can be amplified many times beyond the amount of the capital upon which the credits are based; but to return to the proposition "that the capacity to capitalize commodities in movement exercises a stronger influence over the course of trade than does the economy of transportation," I must say that I do not think it is borne out by the facts. The reasons for this are given so concisely and forcibly in a paper by Mr. A. E. Orr, a merchant of this city, that I quote them as an expression of my own views, as follows:

"The proposition that the persistent power of the capital of the city of New York will maintain her commercial supremacy is, in my opinion, a fallacy, and one which if persisted in as being the major element in maintaining supremacy will in time surely rob New York of her legitimate commercial birthright, because in holding this delusion closely in view she will continue blind to those influences which in the past few years have been so busy and of late so terribly energetic in competing with her for a large part of her foreign and domestic commerce.

"It is said the ostrich when closely pursued by its pursuers will bury its head in the sand, and in this position imagine itself safe from harm. New York is not altogether free from the responsibility of having practised the foolish confidence of the ostrich. While Canada has been actively enlarging the Welland Canal, Boston boring through the Hoosac Mountains, Philadelphia and Baltimore opening up new paths to the granaries of the great West, whilst even sleepy New Orleans has been deepening the delta of the Mississippi and awakening to the importance of attracting to herself the commerce of those States bordering on her great river and its tributaries, New York has done little else to retain her commercial acquisitions than study the records of the past, and when cautioned against the aggressive action of her seaboard sisters, point to her bank balances and laugh at their attacks.

"I do not wish you to suppose that I fail to appreciate the importance of capital in relation to the course of trade. It is a very necessary auxiliary, and in a country where comparative poverty is the rule and means of transit limited and defective its sway may be all important to control and dictate. But in a country like the United States, where wealth is diffusive, where mercantile productions are almost limitless, where means of transportation are superior to those of any country in the world and constantly increasing, and whose surplus productions are sought at her own seaboard by almost every civilized market, capital is not the controlling element that will localize commerce, but on the contrary the place that will present the most remunerative trading will be sought by capital.

"New York was not always the financial center of the United States. In the early days of American commerce, when she could only count her wealth by thousands, other cities could point to theirs in tens of thousands. It was not until a producing

country became her tributary through the means of cheap transit facilities that New York began to assert her financial and commercial ascendancy. Then it was that the surplus of our home products sought her in trade, because they could be placed here cheaper than at any other market on the coast, and then it was that the products of the foreign looms were landed at her wharves, because they could be marketed in the interior to better advantage than by the more expensive routes offered by other seaboard cities, and because (and this is a very important item in the calculation) the vessel which brought the foreign luxuries or necessities was assured of a return cargo of home-grown surplus production by coming to her port. If the Erie Canal had terminated at Boston instead of at New York, which city to-day would have been the recognized commercial metropolis of the United States? If capital can maintain commercial supremacy, from whence did New York obtain her commerce and her capital? I do not know, but if the query is put in the negative the answer is very plain. She first secured transit facilities with the interior superior to those of any competing point, then the surplus production of the country sought her as a market, and then the trade that she had to offer the capitalist attracted to her his capital.

"Let me give you a practical illustration of this law of trade which came to my notice only a few days ago. Two hundred thousand bushels of corn in Chicago was seeking a market at the seaboard. The question controlling its destination was not the financial strength of the city to be selected, but which market on the Atlantic coast would yield the largest return to the shipper. An application came to a firm in New York in these words 'Will you advance on two hundred thousand bushels of corn to be shipped to Baltimore?' They answered, 'Yes; but why to Baltimore in preference to New York?' The reply came, 'Transportation to Baltimore is half cent per bushel less than to New York.' And so the corn went to Baltimore; and just so much was added to her commercial strength by New York capital. This corn was not controlled by capital, it could select its own market, and having selected Baltimore, because the sum of one thousand dollars could be saved in transportation charges, New York capital followed it there for the reason that it was idle and Baltimore offered it employment.

"Follow this transaction a little further. Six vessels will find in Baltimore six cargoes of corn awaiting them; and she will receive the inward cargoes of those six vessels because she can supply them with return freights. Now what think you? Was it Baltimore's cheaper transportation charges, as against competing points, or New York's idle capital that procured for the former all the advantages arising out of this corn shipment?

"Having shown that capital is impotent to attract trade when opposed by the magnet of cheaper transportation, let me first point out as nearly as possible the measure of loss which New York sustained in this single transaction, and then suggest the remedy.

"If the corn in question had come to New York at the same rate of transportation as charged to Baltimore, six and a half cents per bushel (including the terminal charges in New York), or thirteen thousand dollars would have been the actual amount contributed for transportation within the borders of our State. Of this amount the State of New York would have received for tolls \$2,000, and the industrial portion of the population \$11,000. These figures only represent the measure of the positive known loss. The loss arising from the non-arrival of the six vessels at our port with their incoming cargoes, the handling and storing of these cargoes, and their final sale and transportation in great measure into the interior can only be matter of conjecture, but must also be taken into the estimate of the total loss sustained. Nor is this all. Baltimore having demonstrated the fact that she can give return cargoes to these six vessels, will induce a return on their part to her port with six additional companions, to the continued detriment of the foreign commerce of New York.

"It has been shown that one-half cent per bushel or the sum of \$1,000 turned this corn from New York to Baltimore. It is also shown that the tax that would have been claimed by the State of New York, if this corn had passed through her canals, was \$2,000. It is therefore evident that it was the toll charge made by the State that turned the corn from New York to Baltimore, and that through that demand, not only did the State fail to receive any toll whatever, but the industrial classes of the State failed to receive the sum of \$11,000, which otherwise would have come into their possession.

"In 1870 the toll charge of the State was reduced to three cents per bushel; in 1875 it was reduced to two cents per bushel; in 1877 to one cent. Why? Because western productions were seeking other routes to the seaboard which were cheaper than by the Erie Canal. This toll charge stimulated the construction of these routes just as unhealthy protection, by means of large tariff duties, stimulates over production of home manufactures. If a liberal policy had been extended to the city and State by making the canals free, these competitive routes would never have been constructed; and New York to-day would undoubtedly be, as she yet claims to be, the commercial metropolis of the United States?

"Why not then make the canals free and try thereby to retrieve what has been lost by the short-sighted policy of past legislation. Is this too much to ask for a city which, with its dormitories (Brooklyn and Westchester County), contributes more than half of the taxes collected for the support of the State?

"I will not tax your time with discussing this subject.

"There is a great moral involved, and it behooves the city of New York to study it carefully. Commerce cannot be localized by capital; that is certain. But that place in the United States that can localize commerce through the advantages of position and transit facilities, both foreign and domestic, will attract and retain capital."

There is, however, another phase of the question, which has not been touched upon by Mr. Orr, and that is, the advantage which large capital gives New York in her importing and distributing trade; and this is precisely the advantage which an old established firm with abundant capital possesses over a younger house with insufficient capital. The former usually offers its customers a better variety, especially in goods of fine quality, requiring large capital to carry them, and it is also able to give more liberal terms and thus induce a larger patronage. The larger the volume of business the more cheaply it can be done, and it gains a certain "good will" after a time which continuously attracts and increases the volume of business. There is no question but that New York does enjoy substantial advantages over all competitors in this respect, and especially over the larger distributing cities of the interior. New York has not only the advantage of her own capital, but also, to a considerable extent, of the capital of foreign manufacturers who establish their branch houses or agencies in New York as the leading commercial emporium of the United States. Here these manufactured goods await purchasers; here new and attractive goods are first shown and the largest variety is to be found. Capital is also cheaper in New York than in western distributing cities, and the difference in the rate of interest perhaps fairly illustrates the relative advantages of different places as distributing points. Therefore I think it may safely be said that the capital of New York, in so far as its importing and distributing trade is concerned, does confer substantial advantages, and exercises "a persistent power toward maintaining her commercial supremacy." But for the fact that the railroads have persistently, and most unjustly, discriminated against the retail merchants of the interior in favor of wholesale merchants of the interior by giving the latter special rates of freight out of all proportion to the difference in the cost of transporting a large and a small quantity, much of the wholesale trade which is now done in the interior would be done at the seaboard, which is undoubtedly the natural distributing point. In short, as stated in my answers to questions bearing more particularly upon the transportation problem, the policy pursued by the railroads previous to the adoption of the present pooling system was a direct subsidy to the interior wholesale merchant, and had the effect to forcibly take business away from the seaboard distributing merchants, and give it to those in the interior, at the same time infringing upon the retail merchant's right, as a citizen, of choosing in what markets he will buy his goods.

This has undoubtedly, to a considerable extent, neutralized the advantages enjoyed by New York, and if long continued must inevitably have proved that the advantages of capital are subordinate to other conditions, chief among which are transportation facilities. It is to be hoped, however, that this system, so unjust both to the retail merchants in the interior and the wholesale merchants on the seaboard, is a thing of the past; and that the future will develop a permanent system in the management of our transportation lines alike equitable to all classes.

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